

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management Discussion and Analysis,
Basic Financial Statements, Supplemental
Information, and Compliance Reports

Year Ended June 30, 2012

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

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Independent Auditor's Report

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of The Aleutians East Borough as of and for the year ended June 30, 2012, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the component unit financial statements of the Aleutians East Borough School District. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to amounts included for the component unit financial statements of Aleutians East Borough School District and the general fixed assets account group, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of The Aleutians East Borough as of June 30, 2012, and respective changes in financial position and, where applicable, cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

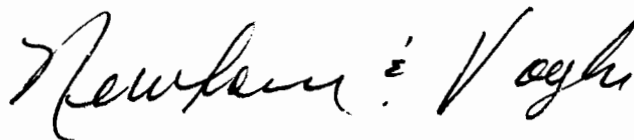
In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2013, on our consideration of The Aleutians East Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 19 through 20 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Aleutians East Borough's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying schedule of State financial assistance is presented for purposes of additional analysis as required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

March 4, 2013



THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis

Year Ended June 30, 2012

As the management of The Aleutians East Borough, we offer readers of The Aleutians East Borough's financial statements this narrative overview and analysis of the financial activities of The Aleutians East Borough for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the Borough's financial statements which follow this narrative.

FINANCIAL HIGHLIGHTS

- Assets of The Aleutians East Borough exceeded liabilities at the close of the fiscal year by \$99,960,812 (net assets).
- The Government's total net assets increased by \$2,585,692, primarily due to government activity, capitalization of capital expenses in the government-wide financial statements and gain on investments.
- Governmental funds reported combined ending fund balances of \$52,032,101, an increase of \$1,453,160 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,913,902, or 99 percent of total general fund expenditures for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to The Aleutians East Borough's basic financial statements. The Borough's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Borough through use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of The Aleutians East Borough.

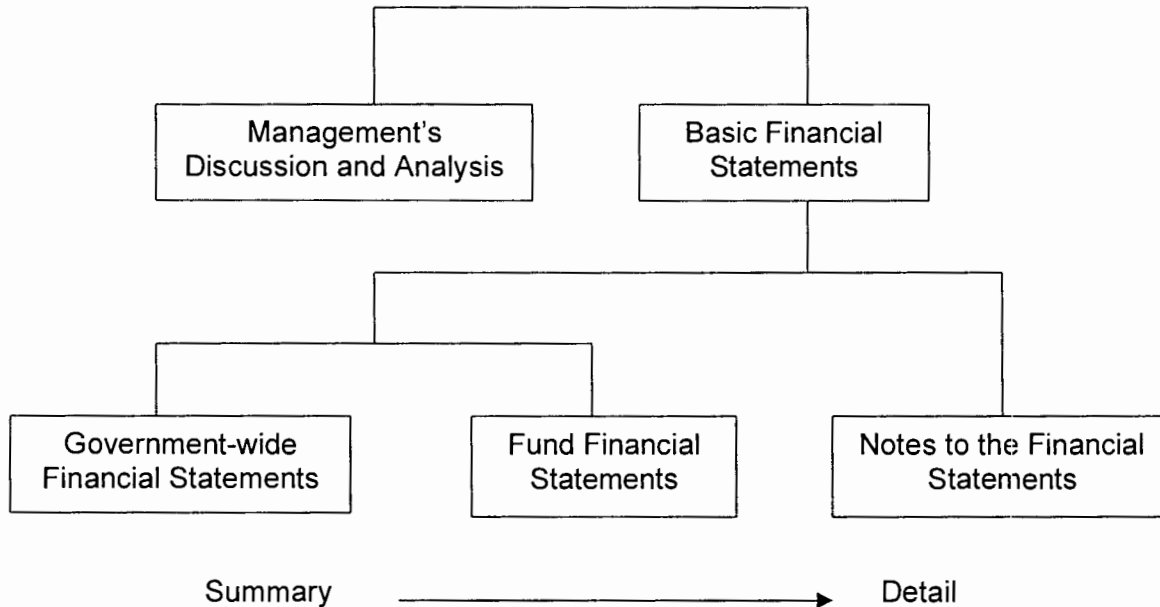
THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are government-wide financial statements. They provide both short- and long-term information about the Borough's financial status.

The next statements (Exhibits B-1 through B-5) are fund financial statements. These statements focus on activities of the individual parts of the Borough's government. These statements provide more detail than government-wide statements. There are two parts to fund financial statements: governmental funds statements and budgetary comparison statements.

The next section of the basic financial statements is notes. Notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Borough's individual funds. Budgetary information can also be found in this part of the statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide the reader with a broad overview of the Borough's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short- and long-term information about the Borough's financial status as a whole.

The two government-wide statements report the Borough's net assets and how they have changed. Net assets are the difference between the Borough's total assets and total liabilities. Measuring net assets is one way to gage the Borough's financial condition.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Government-wide Financial Statements, continued

Government-wide statements are divided into two categories: governmental activities and component units. Governmental activities include the Borough's basic services such as natural resource management, capital projects management, and general administration. State and federal grant funds finance most of these activities. The component unit includes the Aleutians East Borough School District. The District's activities include Instruction, Support Services, Student Transportation, and Food Services, among others. These activities are supported by local, State, and federal financial aid.

Government-wide financial statements are Exhibits A-1 and A-2 of this report.

Fund Financial Statements

Fund financial statements (see Figure 2) provide a more detailed look at the Borough's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All funds of The Aleutians East Borough are included within one broad category: governmental funds.

The Aleutians East Borough's Net Assets
Figure 2

	2012	2011
Current and other assets	\$ 51,409,184	50,414,121
Capital assets	<u>84,812,672</u>	<u>84,572,600</u>
	<u>\$ 136,221,856</u>	<u>134,986,721</u>
Liabilities	<u>\$ 36,261,044</u>	<u>37,611,601</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 52,032,672	50,607,600
Reserved:		
Forward funding	9,613,654	8,896,771
Construction	8,945,380	11,209,676
Permanent fund	29,021,492	27,790,630
Unreserved:		
Designated for major maintenance	462,550	398,952
Undesignated	<u>(114,936)</u>	<u>(1,528,509)</u>
Total net assets	<u>99,960,812</u>	<u>97,375,120</u>
	<u>\$ 136,221,856</u>	<u>134,986,721</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis, continued

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Fund Financial Statements, continued

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Borough's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Borough's programs. The relationship between government activities (reported in the statement of net assets and statement of activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Aleutians East Borough adopts an annual budget for its general fund. The budget is a legally adopted document that incorporates input from the management of the Borough and decisions of the Assembly about which services to provide and how to pay for them. It also authorizes the Borough to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the general fund demonstrates how well the Borough complied with the budget and whether or not the Borough succeeded in providing services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Assembly; 2) the final budget as amended by the Assembly; 3) actual resources, charges to appropriations, and ending balances in the general fund; and 4) the difference or variance between the final budget and actual resources and charges. To account for the difference between the budgetary basis of accounting and modified accrual basis, a reconciliation showing differences in reported activities is shown at the end of the budgetary statement.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of data provided in the government-wide and fund financial statements. Notes to the financial statements are on pages 24 through 38 of this report.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended June 30, 2012, are the beginning of a new era in financial reporting for The Aleutians East Borough and many other units of government across the United States. Prior to this year, The Aleutians East Borough maintained its governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust statements in such a way that the total column would represent the overall financial condition of The Aleutians East Borough. These statements were basically the equivalent of fund financial statements that appear in this report with fiduciary funds and two account groups, long-term debt, and general fixed assets added in.

Changes in the financial statement reporting model are mandated by GASB. GASB 34 dictated the changes you see in The Aleutians East Borough's financial reports as well as those of many other units of government. While The Aleutians East Borough was required to implement these changes for the fiscal year ended June 30, 2004, other units were required to implement Statement 34 in 2002.

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. Assets of The Aleutians East Borough exceeded liabilities by \$99,960,812 as of June 30, 2012. The Borough's net assets increased by \$2,585,692 for the fiscal year ended June 30, 2012. However, the largest portion reflects the Borough's investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt still outstanding that was issued to acquire those items. The Aleutians East Borough uses these capital assets to provide services; consequently, these assets are not available for future spending. Although The Aleutians East Borough's investment in its capital assets is reported net of any outstanding related debt, resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Several particular aspects of the Borough's financial operations positively influenced total unrestricted governmental net assets:

- Increase in funding from the Borough raw fish tax.
- Increased miscellaneous revenues

Governmental Activities

Governmental activities increased the Borough's net assets by \$3,329,194, thereby accounting for 100 percent of total increase in net assets of The Aleutians East Borough (see Figure 3). Key elements of this increase are as follows:

- Miscellaneous revenues increased.
- Borough raw fish taxes increased

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis, continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Governmental Activities, continued

The Aleutians East Borough Changes in Net Assets
Figure 3

Revenues:

Program revenues:

Charges for services	\$ 4,789,215
Operating grants and contributions	3,950,039
Capital grants and contributions	1,210,599

General revenues:

Unrestricted investment earnings	28,779
Restricted investment earnings	1,018,059
Miscellaneous	1,169,817
<i>Total revenues</i>	<u>12,166,508</u>

Expenses:

General fund	5,569,838
Bond construction	1,721,984
Trust fund	40,089
Debt service	1,379,690
Capital improvements	125,713
<i>Total expenses</i>	<u>8,837,314</u>

Increase in net assets	3,329,194
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Net assets, beginning of year	<u>85,717,477</u>
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Net assets, end of year	<u>\$ 89,046,671</u>
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FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As noted earlier, The Aleutians East Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of The Aleutians East Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing The Aleutians East Borough's financing requirements. Specifically, the unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS, continued

Governmental Funds, continued

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$12,166,508 and expenditures of \$14,173,348. The net change in funds balance after transfers and bond proceeds was an increase of \$1,453,160.

At June 30, 2012, governmental funds of The Aleutians East Borough reported a combined fund balance of \$51,432,101, a 2 percent increase over last year.

Budgetary Highlights

General fund budgets are prepared according to Alaska law and are based on a modified accrual basis of accounting. The most significant budgeted fund is the general fund.

Actual revenues in the general fund were \$609,775 more than anticipated. This variance was related primarily to the Borough raw fish tax in the general fund.

Actual expenditures in the general fund were \$50,147 more than anticipated. This variance was related primarily to the finance and other departments in the general fund.

Actual revenues in capital improvements were \$733,650 more than anticipated. This variance was related primarily to the increase in federal and state revenue within this fund.

Actual expenditures in capital improvements were \$2,726,646 more than anticipated. This variance was due to the increase in activity within this fund.

Actual revenues in the trust fund were \$570,951 greater than anticipated. This variance was due to an increase in investment income.

Actual expenditures in the trust fund were \$5,089 more than anticipated. This variance was due to an increase in investment management fees within this fund.

Actual expenditures in the debt service fund were \$4,417,257 greater than anticipated. This variance was due to the increase in principle and interest expense within this fund, as well as bond refunding during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Aleutians East Borough's investment in capital assets for its governmental activities as of June 30, 2012 totals \$84,812,672 (net of accumulated depreciation; see Figure 4). These assets include buildings, land, machinery and equipment, vehicles, and infrastructure.

Major capital asset transactions during the year include the following additions and retirements:

- Infrastructure additions totaled \$2,309,904.
- Buildings and improvements additions totaled \$118,922.
- Vehicles and equipment additions totaled \$22,683.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Management's Discussion and Analysis, continued

The Aleutians East Borough's Capital Assets
Figure 4

	Capital Assets, Depreciated						Totals
	Capital Assets, Not Depreciated - Land	Buildings	Infra-structure	Furniture and Equipment	Vehicles	Access Road Construction WIP	
Primary government -							
Governmental activities:							
Balance, June 30, 2011	\$ 5,323,074	45,048,416	29,992,107	606,743	169,651	32,663,365	113,803,356
Increases	-	-	2,295,352	-	-	14,552	2,309,904
Decreases	-	-	-	-	-	-	-
Balance, June 30, 2012	5,323,074	45,048,416	32,287,459	606,743	169,651	32,677,917	116,113,260
Accumulated depreciation -							
Balance, June 30, 2012	-	(34,591,551)	(11,000,370)	(580,271)	(146,498)	-	(46,318,690)
Capital assets, net	5,323,074	10,456,865	21,287,089	26,472	23,153	32,677,917	69,794,570
Business-type activities:							
Balance, June 30, 2011	-	7,220,226	-	10,319,676	-	-	17,539,902
Increases	-	118,922	-	22,683	-	-	141,605
Balance, June 30, 2012	-	7,339,148	-	10,342,359	-	-	17,681,507
Accumulated depreciation -							
Balance, June 30, 2012	-	(877,505)	-	(1,785,900)	-	-	(2,663,405)
Capital assets, net	-	6,461,643	-	8,556,459	-	-	15,018,102
Total Governmental activities:	<u>5,323,074</u>	<u>16,918,508</u>	<u>21,287,089</u>	<u>8,582,931</u>	<u>23,153</u>	<u>32,677,917</u>	<u>84,812,672</u>
Component units:							
Balance, June 30, 2011	-	-	-	823,861	-	-	823,861
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Balance, June 30, 2012	-	-	-	823,861	-	-	823,861
Accumulated depreciation -							
Balance, June 30, 2012	-	-	-	(474,515)	-	-	(474,515)
Capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>349,346</u>	<u>-</u>	<u>-</u>	<u>349,346</u>

Additional information on the Borough's capital assets can be found in the notes to the basic financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Management's Discussion and Analysis, continued

CAPITAL ASSET AND DEBT ADMINISTRATION, continued

Long-term Debt

As of June 30, 2012, The Aleutians East Borough had the following outstanding debt:

Bonds payable at July 1, 2011	\$ 33,965,000
Bond Proceeds	3,450,000
Principal payments	<u>(4,635,000)</u>
Bonds payable at June 30, 2012	<u>\$ 32,780,000</u>

Additional information on the Borough's outstanding debt can be found in the notes to the basic financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Borough's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Director of Finance, The Aleutians East Borough, PO Box 49, King Cove, AK 99612.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit A-1

Government-wide Statement Net Assets

June 30, 2012

	Primary Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	\$ 300	-	300	-
Equity in central treasury	47,422,576	-	47,422,576	1,995,307
Investments	452,553	-	452,553	-
Prepays	-	-	-	275,878
Due from primary government	-	-	-	65,344
Inventory	-	-	-	44,597
Receivables, net:				
State of Alaska	755,799	-	755,799	-
Federal	1,142,970	-	1,142,970	-
School	174,080	-	174,080	-
Accrued interest	114,652	-	114,652	-
Other	1,336,129	10,125	1,346,254	73,833
<i>Total receivables</i>	<u>3,523,630</u>	<u>10,125</u>	<u>3,533,755</u>	<u>73,833</u>
Internal balances	<u>4,105,754</u>	<u>(4,105,754)</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land and construction in progress	38,000,991	-	38,000,991	-
Other capital assets, net of depreciation	31,793,579	15,018,102	46,811,681	349,346
<i>Total capital assets</i>	<u>69,794,570</u>	<u>15,018,102</u>	<u>84,812,672</u>	<u>349,346</u>
	<u>\$ 125,299,383</u>	<u>10,922,473</u>	<u>136,221,856</u>	<u>2,804,305</u>
Liabilities				
Accounts payable	\$ 911,434	8,332	919,766	82,078
Accrued payroll and taxes	-	-	-	440,968
Accrued vacation	39,277	-	39,277	37,152
Deferred revenue	526,694	-	526,694	7,340
Due to component unit	1,995,307	-	1,995,307	-
Debt payable	32,780,000	-	32,780,000	-
<i>Total liabilities</i>	<u>36,252,712</u>	<u>8,332</u>	<u>36,261,044</u>	<u>567,538</u>
Net Assets				
Invested in capital assets, net of related debt	37,014,570	15,018,102	52,032,672	349,346
Reserved:				
Forward funding	9,613,654	-	9,613,654	-
Construction	8,945,380	-	8,945,380	-
Permanent fund	29,021,492	-	29,021,492	-
Other	-	-	-	1,887,421
Unreserved:				
Designated for major maintenance	462,550	-	462,550	-
Undesignated	3,989,025	(4,103,961)	(114,936)	-
<i>Total net assets</i>	<u>89,046,671</u>	<u>10,914,141</u>	<u>99,960,812</u>	<u>2,236,767</u>
	<u>\$ 125,299,383</u>	<u>10,922,473</u>	<u>136,221,856</u>	<u>2,804,305</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Government-wide Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Component Unit
Primary governmental activities:							
General Fund	\$ 5,569,838	4,789,215	3,950,039	-	3,169,416	-	-
Bond construction	1,721,984	-	-	1,210,599	(511,385)	-	-
Trust fund	40,089	-	-	-	(40,089)	-	-
Debt service	1,379,690	-	-	-	(1,379,690)	-	-
Maintenance reserve	106,714	-	-	-	(106,714)	-	-
Capital improvements	18,999	-	-	-	(18,999)	-	-
<i>Total primary governmental activities</i>	<u>8,837,314</u>	<u>4,789,215</u>	<u>3,950,039</u>	<u>1,210,599</u>	<u>1,112,539</u>	<u>-</u>	<u>-</u>
Business-type activity - Hovercraft & Terminal	<u>1,068,935</u>	<u>325,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(743,502)</u>	<u>-</u>
Total primary government	<u>9,906,249</u>	<u>5,114,648</u>	<u>3,950,039</u>	<u>1,210,599</u>	<u>1,112,539</u>	<u>(743,502)</u>	<u>-</u>
Component unit - AEB School	<u>\$ 9,444,252</u>	<u>76,716</u>	<u>690,503</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,677,033)</u>
				Primary Governmental Activities	Business-type Activities	Total	Component Unit
General revenues:							
Unrestricted investment earnings				\$ 28,779	-	28,779	-
Restricted investment earnings				1,018,059	-	1,018,059	-
Southwest Cities, LLC				-	-	-	1,603,484
Local contributions				-	-	-	5,719,458
State grants and entitlements				-	-	-	1,066,176
Federal sources				-	-	-	11,919
Miscellaneous				1,169,817	-	1,169,817	8,401,037
<i>Total general revenues</i>				<u>2,216,655</u>	<u>-</u>	<u>2,216,655</u>	
Change in net assets				3,329,194	(743,502)	2,585,692	(275,996)
Net assets, beginning of year				<u>85,717,477</u>	<u>11,657,643</u>	<u>97,375,120</u>	<u>2,512,763</u>
Net assets, end of year				<u>\$ 89,046,671</u>	<u>10,914,141</u>	<u>99,960,812</u>	<u>2,236,767</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit B-1

Governmental Funds

Combining Balance Sheet

June 30, 2012

	Major Funds				Total
	General	Capital Improvements	Trust Fund	Debt Service	Nonmajor Funds
					Governmental Funds
Assets					
Cash and cash equivalents	\$ 300	-	-	-	300
Equity in central treasury	8,325,448	1,295,239	28,257,938	-	47,422,576
Investment in Southwest Governments, LLC	-	-	452,553	-	452,553
Receivables, net:					
State of Alaska	519,073	236,726	-	-	755,799
Federal	-	1,142,970	-	-	1,142,970
School	-	-	-	-	174,080
Accrued interest	9,495	-	78,328	-	114,652
Other	1,259,781	12,042	-	-	1,336,129
Total receivables	1,788,349	1,391,738	78,328	-	3,523,630
Due from other funds	6,053,358	-	238,543	75,123	533,995
	<u>\$ 16,167,455</u>	<u>2,686,977</u>	<u>29,027,362</u>	<u>75,123</u>	<u>58,300,078</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 78,621	211,284	5,870	-	615,659
Accrued payroll and taxes	-	-	-	-	-
Accrued vacation	39,277	-	-	-	39,277
Deferred revenue	526,694	-	-	-	526,694
Premium on bond payable	-	-	-	-	-
Due to component unit	1,995,307	-	-	-	1,995,307
Due to other funds	-	2,248,071	-	-	547,194
Total liabilities	<u>2,639,899</u>	<u>2,459,355</u>	<u>5,870</u>	<u>-</u>	<u>1,162,853</u>
Fund balances:					
Committed:					
Forward funding	9,613,654	-	-	-	9,613,654
Construction	-	227,622	-	-	8,717,758
Permanent fund	-	-	29,021,492	-	29,021,492
Assigned:					
Designated for major maintenance	-	-	-	-	462,550
Unassigned	3,913,902	-	-	75,123	3,989,025
Total fund balances	<u>13,527,556</u>	<u>227,622</u>	<u>29,021,492</u>	<u>75,123</u>	<u>52,032,101</u>
	<u>\$ 16,167,455</u>	<u>2,686,977</u>	<u>29,027,362</u>	<u>75,123</u>	<u>58,300,078</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Governmental Funds**Reconciliation of Fund Balance to Net Assets**Year Ended June 30, 2012*

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - Total governmental funds	\$ 52,032,101
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	69,794,570
General long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(32,780,000)</u>
Net assets of governmental activities	<u>\$ 89,046,671</u>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit B-3

Governmental Funds

*Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance*

Year Ended June 30, 2012

	Major Funds				Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Improvements	Trust Fund	Debt Service		
Revenues:						
Federal government	\$ 454,403	1,179,045	-	-	-	1,633,448
State of Alaska	3,495,636	31,554	-	-	-	3,527,190
Borough raw fish tax	4,789,215	-	-	-	-	4,789,215
Investment income	28,779	857	920,951	-	96,251	1,046,838
Other	845,621	182,400	-	-	141,796	1,169,817
Total revenues	9,613,654	1,393,856	920,951	-	233,047	12,166,508
Expenditures:						
Current:						
Mayor's office	259,994	-	-	-	-	259,994
Assembly	88,189	-	-	-	-	88,189
Clerk and planning management	181,948	-	-	-	-	181,948
Administration	349,529	-	-	-	-	349,529
Finance	308,331	-	-	-	-	308,331
Resource department	672,573	-	-	-	-	672,573
Public works	125,031	-	-	-	-	125,031
Special assistant	115,802	-	-	-	-	115,802
Other	1,849,571	-	-	-	-	1,849,571
Capital outlay	-	3,386,852	-	-	770,749	4,157,601
Principle	-	-	-	4,635,000	-	4,635,000
Interest	-	-	-	1,379,690	-	1,379,690
Trust fund	-	-	40,089	-	-	40,089
Total expenditures	3,950,968	3,386,852	40,089	6,014,690	770,749	14,163,348
Excess of revenues over (under) expenditures	5,662,686	(1,992,996)	880,862	(6,014,690)	(532,702)	(1,996,840)
Other financing sources (uses):						
Issuance of bonds	-	-	-	3,450,000	-	3,450,000
Transfers from other funds	-	225,000	350,000	2,564,690	100,000	3,239,690
Transfers to other funds	(3,239,690)	-	-	-	-	(3,239,690)
Total other financing sources (uses)	(3,239,690)	225,000	350,000	6,014,690	100,000	3,450,000
Net change in fund balances	2,422,996	(1,767,996)	1,230,862	-	(432,702)	1,453,160
Fund balances, beginning of year	11,104,560	1,995,618	27,790,630	75,123	9,613,010	50,578,941
Fund balances, end of year	\$ 13,527,556	227,622	29,021,492	75,123	9,180,308	52,032,101

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Governmental Funds

Reconciliation of Change in Net Assets

Year Ended June 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - Total governmental funds	\$ 1,453,160
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Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized outlays of \$2,309,904 exceeded depreciation of \$1,618,870 in the current period	691,034
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments of \$4,635,000 exceeds proceeds of \$3,450,000	<u>1,185,000</u>
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Total changes in net assets of governmental activities	<u>\$ 3,329,194</u>
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See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit B-5

General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2012

	General Fund				Capital Improvements		
	Original	Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:							
Federal government	\$ 595,256	490,659	454,403	(36,256)	660,206	1,179,045	518,839
State of Alaska	3,295,809	3,413,384	3,495,636	82,252	-	31,554	31,554
Borough raw fish tax	2,635,000	4,789,215	4,789,215	-	-	-	-
Investment income	35,000	35,000	28,779	(6,221)	-	857	857
Southwest Governments, LLC	-	30,000	-	(30,000)	-	-	-
Other	7,000	245,621	845,621	600,000	-	182,400	182,400
Total revenues	6,568,065	9,003,879	9,613,654	609,775	660,206	1,393,856	733,650
Expenditures:							
Current:							
Mayor's office	247,795	250,866	259,994	(9,128)	-	-	-
Assembly	136,000	129,353	88,189	41,164	-	-	-
Clerk and planning management	176,484	172,604	181,948	(9,344)	-	-	-
Administration	339,950	333,450	349,529	(16,079)	-	-	-
Finance	238,963	290,298	308,331	(18,033)	-	-	-
Resource department	743,934	657,963	672,573	(14,610)	-	-	-
Public works	126,099	116,242	125,031	(8,789)	-	-	-
Special assistant	125,596	108,453	115,802	(7,349)	-	-	-
Other	1,401,432	1,841,592	1,849,571	(7,979)	-	-	-
Capital outlay	-	-	-	-	660,206	3,386,852	(2,726,646)
Principle	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Trust fund	-	-	-	-	-	-	-
Total expenditures	3,536,253	3,900,821	3,950,968	(50,147)	660,206	3,386,852	(2,726,646)
Excess of revenues over (under) expenditures	3,031,812	5,103,058	5,662,686	559,628	-	(1,992,996)	(1,992,996)
Other financing uses -							
Transfers (to) from other funds	(3,239,690)	(3,239,690)	(3,239,690)	-	-	225,000	225,000
Total other financing uses	(3,239,690)	(3,239,690)	(3,239,690)	-	-	225,000	225,000
Excess of revenues and other financing sources (under) over expenditures and other uses	\$ (207,878)	1,863,368	2,422,996	559,628	-	(1,767,996)	(1,767,996)
Fund balances, beginning of year			11,104,560			1,995,618	
Fund balances, end of year			\$ 13,527,556			227,622	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, continued

	Trust fund			Debt Service Fund		
	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:						
Federal government	\$ -	-	-	-	-	-
State of Alaska	-	-	-	-	-	-
Borough raw fish tax	-	-	-	-	-	-
Investment income	350,000	920,951	570,951	-	-	-
Other	-	-	-	-	-	-
<i>Total revenues</i>	<u>350,000</u>	<u>920,951</u>	<u>570,951</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:	-	-	-	-	-	-
Mayor's office	-	-	-	-	-	-
Assembly	-	-	-	-	-	-
Clerk and planning management	-	-	-	-	-	-
Administration	-	-	-	-	-	-
Finance	-	-	-	-	-	-
Resource department	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Special assistant	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Principle	-	-	-	875,000	4,635,000	(3,760,000)
Interest	-	-	-	722,433	1,379,690	(657,257)
Trust fund	35,000	40,089	(5,089)	-	-	-
<i>Total expenditures</i>	<u>35,000</u>	<u>40,089</u>	<u>(5,089)</u>	<u>1,597,433</u>	<u>6,014,690</u>	<u>(4,417,257)</u>
Excess of revenues over (under) expenditures	315,000	880,862	565,862	(1,597,433)	(6,014,690)	(4,417,257)
Other financing sources -						
Issuance of bonds	-	-	-	-	3,450,000	3,450,000
Transfers from other funds	-	350,000	350,000	1,597,433	2,564,690	967,257
<i>Total other financing sources</i>	<u>-</u>	<u>350,000</u>	<u>350,000</u>	<u>1,597,433</u>	<u>6,014,690</u>	<u>4,417,257</u>
Excess of revenues and other financing sources over (under) expenditures and other uses	<u>\$ 315,000</u>	<u>1,230,862</u>	<u>915,862</u>	<u>(2,564,690)</u>	<u>-</u>	<u>-</u>
Fund balances, beginning of year		<u>27,790,630</u>			<u>75,123</u>	
Fund balances, end of year		<u>\$ 29,021,492</u>			<u>75,123</u>	

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit C-1

Business-type Activities - Hovercraft and Terminal

Balance Sheet

June 30, 2012

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Total Business - Type Activities</u>
Assets			
Current assets:			
Receivables, net	\$ 10,125	-	10,125
Non-Current assets:			
Equipment, net of accumulated depreciation	8,556,460	6,461,642	15,018,102
<i>Total assets</i>	<u>\$ 8,566,585</u>	<u>6,461,642</u>	<u>15,028,227</u>
 Liabilities			
Accounts payable	\$ 8,332	-	8,332
Due to other funds	2,941,696	1,164,058	4,105,754
<i>Total liabilities</i>	<u>2,950,028</u>	<u>1,164,058</u>	<u>4,114,086</u>
 Retained earnings			
Fund equity:			
Contributions in aid, net	8,556,460	6,461,642	15,018,102
Retained deficit	(2,939,903)	(1,164,058)	(4,103,961)
<i>Total fund equity</i>	<u>5,616,557</u>	<u>5,297,584</u>	<u>10,914,141</u>
	<u>\$ 8,566,585</u>	<u>6,461,642</u>	<u>15,028,227</u>

The notes to the financial statements are an integral part of this statement.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Business-type Activities - Hovercraft and Terminal**Combined Statement of Revenues, Expenses
and Changes in Retained Earnings**Year Ended June 30, 2012*

	Hovercraft	Terminal	Total Business - Type Activities
Revenues	\$ 190,812	134,621	325,433
Operating expenses:			
Salaries and benefits	5,169	26,901	32,070
Contract labor	-	40,805	40,805
Travel and per diem	-	1,379	1,379
Telephone	3,559	5,297	8,856
Supplies	5,454	22,922	28,376
Equipment	2,000	-	2,000
Rent	-	9,510	9,510
Utilities	13,537	28,453	41,990
Insurance	290,147	-	290,147
Fuel	3,987	17,247	21,234
Depreciation	348,590	243,978	592,568
<i>Total operating expenses</i>	<u>672,443</u>	<u>396,492</u>	<u>1,068,935</u>
Excess of revenues under expenditures	(481,631)	(261,871)	(743,502)
Other financing source - Operating transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	(481,631)	(261,871)	(743,502)
Retained earnings, beginning of year	<u>6,098,188</u>	<u>5,559,455</u>	<u>11,657,643</u>
Retained earnings, end of year	<u>\$ 5,616,557</u>	<u>5,297,584</u>	<u>10,914,141</u>

The notes to the financial statements are an integral part of this statement.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit C-3

Business-type Activities - Hovercraft and Terminal

Statement of Cash Flows

Year Ended June 30, 2012

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Total Business - Type Activities</u>
Increase (decrease) in cash and cash equivalents -			
Cash flows from operating activities:			
Cash payments from customers	\$ 181,538	134,621	316,159
Cash payments from other sources	216,879	136,815	353,694
Cash payments for goods and services	(370,564)	(125,613)	(496,177)
Cash payments for salaries and benefits	(5,169)	(26,901)	(32,070)
<i>Net cash used by operating activities</i>	<u>22,684</u>	<u>118,922</u>	<u>141,606</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(22,684)	(118,922)	(141,606)
<i>Total cash flows used by capital and related financing activities</i>	<u>(22,684)</u>	<u>(118,922)</u>	<u>(141,606)</u>
Net increase in cash	-	-	-
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	\$ -	-	-
Reconciliation of operating loss to net cash provided by operating activities:			
Change in net assets	\$ (481,631)	(261,871)	(743,502)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	348,590	243,978	592,568
Decrease in current assets:			
Receivables, net	(9,274)	-	(9,274)
Increase (decrease) in current liabilities:			
Accounts payable	(51,880)	-	(51,880)
Increase in due to other funds	<u>216,879</u>	<u>136,815</u>	<u>353,694</u>
Net cash provided by operating activities	\$ 22,684	118,922	141,606

The notes to the financial statements are an integral part of this statement.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Deferred Compensation Agency Fund

Statement of Fiduciary Net Assets

June 30, 2012

Assets

Property and rights held under deferred compensation plan	<u>\$ 467,075</u>
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Net Assets

Obligations to employees under deferred compensation plan	<u>\$ 467,075</u>
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THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements

Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of The Aleutians East Borough and The Aleutians East Borough School District. The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The Aleutians East Borough School District is a component unit of The Aleutians East Borough. The Aleutians East Borough School District's audited financial statements may be obtained from The Aleutians East Borough School District.

No other entities exist over which the Borough has oversight responsibility.

Component Unit

The Aleutians East Borough School District is a component unit of The Aleutians East Borough. The School District was formed July 1, 1988, as a result of the formation of The Aleutians East Borough on the same date. The District was formed by incorporating King Cove City School District and Sand Point City School District. In addition, the following locations were added from Aleutian Region School District: Cold Bay, False Pass, Nelson Lagoon, and Akutan.

As the School District is organized as a government, its financial statements are prepared using accounting principles generally accepted in the United States of America as related to government organizations. As such, the financial statements are prepared using the current financial resources measurement focus and accrual method of accounting.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Government-wide and Fund Financial Statements, continued

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the Borough had no restricted net assets.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The financial statements of the Borough are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Borough's reporting entity applies all relevant GASB pronouncements and applicable Financial Accounting Standards Assembly (FASB) pronouncements and Accounting Principles Assembly (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Borough's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Types and Major Funds

The Borough reports the following major governmental funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.
- Capital Projects - Accounts for all revenue received and expenditures made for the development and administration of capital projects.
- Trust Fund - Accounts for all revenue received and expenditures made for the development and administration of the trust fund.
- Debt Service – Accounts for all expenditures made for the retirement of and interest on debt.
- Business-type activity – Hovercraft and Terminal – Accounts for all activity for the operations of the hovercraft.

Other Fund Types

The Borough also reports the following fund type: Nonmajor Fund - Reports all capital expenditures for the Borough.

Assets, Liabilities, and Equity

- Deposits and Investments - The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.
- Receivables and Payables - All outstanding balances between funds are reported as "due to/from other funds." These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. The direct write-off method is used for estimated uncollectible accounts receivable.
- Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued **Assets, Liabilities, and Equity, continued**

- **Fixed Assets** - The Borough's property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are stated at fair value on the date donated. The Borough generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings	25
Infrastructure	30
Furniture and equipment	3 to 7
Vehicles	7

- **Compensated Absences** - It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminated employees and are included in wages and benefits payable.
- **Deferred Revenue** - Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as deferred revenue.
- **Long-term Debt** - In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.
- **Fund Equity** - Governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. There is no reserved fund balance reported in the current year.

Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

Beginning in fiscal year 2003, the Borough is forward funding its general fund expenditures and reserving general fund balance to the extent of current-year general fund revenue except coastal management and LEPC grants.

NOTE 3 - CASH AND INVESTMENTS

The Borough's investment policy authorizes the Borough to invest in U.S. Treasury securities; obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements; certificates of deposit; bonds and notes which are issued by any state or political subdivision thereof which are graded "A" or higher by Moody's Investor's Service, Inc.; prime commercial paper graded "A1" or higher by Moody's Investor's Service, Inc.; banks and savings and loan associations to the extent that deposits are insured by Federal Depository Insurance Corporation or Federal Savings and Loan Insurance Corporation; obligations of corporations, provided the obligations are graded "Baa" or higher by Moody's Investor's Service Inc., or Standard and Poor's Corporation and issued in the United States and denominated in US dollars, not more than 15% of the fixed income portfolio may be held in Baa rated securities; The Alaska Municipal League Investment Pool, Inc.; and Income producing real estate investments. Additionally, the policy authorizes the Borough invest permanent fund assets to maintain safety of principle while maximizing the total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution, or with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in the following securities: Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's); International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Europe, Australiasia, Far East (EAFE) Index, including both mutual funds and exchange traded funds (ETF's); Equities, which take as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT index or the Cohen and Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF's); and Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 400 Midcap Index, including both mutual funds and exchange traded funds (ETF's). The permanent fund may invest up to 35 percent of total invested permanent funds in common and preferred stock listed on a recognized exchange and a mutual fund designed to replicate the Standard and Poor's 500 Index. The permanent fund may also invest in international equities up to a maximum of 5 percent of the total permanent fund. Performance measurement for the Fixed Income Allocation will be measured against the Target weighting using the Lehman Intermediate Gov/Credit Index for the Benchmark.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 3 - CASH AND INVESTMENTS, continued

The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.

Statutes require that the Borough's deposits in excess of FDIC or FSLIC limits be collateralized by government securities. Cash resources for some of the various funds are maintained in a central treasury represented by a sweep checking account and certificate of deposit. Cash is swept and commingled with the School District's moneys within Borough accounts on a daily basis.

The Borough participates in the Alaska Municipal League Investment Pool (AMLIP). This investment pool consists of governmental investors within the State of Alaska. AMLIP does not carry its own institutional insurance or collateralization for funds it invests. The organizing document does state that certificates of deposit must be collateralized or covered by federal insurance by the issuing entity. The carrying amount and market value at June 30, 2012, was \$50,782.

Cash and investment balances are as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
Cash and cash equivalents	\$ 8,912,887	7,074,375
Investments, at fair market value	<u>40,348,501</u>	<u>40,348,501</u>
	<u>\$ 49,261,388</u>	<u>47,422,876</u>

Components of investment income/(loss) at June 30, 2012 was as follows:

Interest	\$ 454,709
Dividends	452,925
Fees	(15,719)
Realized gains (loss)	723,624
Unrealized gains (loss)	<u>(568,701)</u>
	<u>\$ 1,046,838</u>

Investment income/(loss) affected the following funds at June 30, 2012:

General Fund - unreserved	\$ 28,779
Bond Construction - reserved	857
Trust Fund - reserved	920,951
Non-Major Fund- unreserved	<u>96,251</u>
	<u>\$ 1,046,838</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 4 – CAPITAL ASSETS

A summary of changes in fixed assets for the year ended June 30, 2012, follows:

	June 30, 2011	Additions	Retirements	June 30, 2012
Land	\$ 5,323,074	-	-	5,323,074
Buildings and improvements	45,048,416	-	-	45,048,416
Infrastructure	29,992,107	2,295,352	-	32,287,459
Furniture and equipment	606,743	-	-	606,743
Vehicles	169,651	-	-	169,651
Access road construction	32,663,365	14,552	-	32,677,917
	113,803,356	2,309,904	-	116,113,260
Less accumulated depreciation	<u>(44,699,820)</u>	<u>(1,618,870)</u>	-	<u>(46,318,690)</u>
	<u>\$ 69,049,647</u>	<u>691,034</u>	<u>-</u>	<u>69,794,570</u>
Hovercraft	\$ 10,319,676	22,683	-	10,342,359
Terminal	7,220,226	118,922	-	7,339,148
	17,539,902	141,605	-	17,681,507
Less accumulated depreciation	<u>(2,070,837)</u>	<u>(592,568)</u>	-	<u>(2,663,405)</u>
	<u>\$ 15,469,065</u>	<u>(450,963)</u>	<u>-</u>	<u>15,018,102</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are shown as "due to" and "due from" in each individual fund within the governmental fund financial statements. These balances represent short-term interfund borrowings at June 30, 2012, and were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major funds:		
General fund	\$ 6,053,358	-
Capital Improvements	-	2,248,071
Trust Fund	238,543	-
Debt Service	75,123	-
Business-type activity - Hovercraft and terminal	-	4,105,754
<i>Total Major Funds</i>	<u>6,367,024</u>	<u>6,353,825</u>
Nonmajor funds:		
Maintenance Reserve	253,225	-
Bond Construction	-	547,194
King Cove Access Project	<u>280,770</u>	<u>-</u>
<i>Total Nonmajor Funds</i>	<u>533,995</u>	<u>547,194</u>
	<u>\$ 6,901,019</u>	<u>6,901,019</u>

NOTE 6 - LONG-TERM DEBT

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2012:

Bonds payable at July 1, 2011	\$ 33,965,000
Bond proceeds	3,450,000
Principal payments	<u>(4,635,000)</u>
 Bonds payable at June 30, 2012	 <u>\$ 32,780,000</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 6 - LONG-TERM DEBT, continued

General obligation bonds payable at June 30, 2012, are comprised of the following individual issues:

\$21,125,000 - 2003 Aleutians East Borough, Alaska school, marine, other transportation, due in variable installments ranging from \$60,125 to \$2,465,125 through December 1, 2028; interest rate not to exceed 7 percent	\$ 690,000
\$5,000,000 - 2006 Akutan Harbor due in variable installments ranging from \$112,393 to \$556,235 through February 1, 2026; interest rate is variable from 4.0 to 4.35 percent.	3,330,000
\$21,095,000 - 2007 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$53,550 to \$2,433,550 through June 30, 2029; interest rate is variable from 3.75 to 5.0 percent	20,540,000
\$5,000,000 - 2011 Akutan Airport and King Cove Access Project due in variable installments ranging from \$175,000 to \$1,560,000 through October 1, 2030; interest rate is variable from 2.0 to 5.4 percent	4,825,000
\$3,460,000 - 2011 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$65,000 to \$905,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	<u>3,395,000</u>
	<u>\$ 32,780,000</u>

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 6 - LONG-TERM DEBT, continued

Annual requirements to amortize all Borough general obligation bonds and leases payable as of June 30th follow:

Year ending	Principal	Interest	Total
2013	\$ 1,033,591	1,408,767	2,442,358
2014	1,102,182	1,444,626	2,546,808
2015	1,401,154	1,393,929	2,795,083
2016	1,220,525	1,335,783	2,556,308
2017	1,425,311	1,278,447	2,703,758
2018-2023	8,904,245	5,171,593	14,075,838
2024-2028	11,712,993	2,806,734	14,519,727
2029-2033	5,980,000	347,237	6,327,237
	<u>\$ 32,780,000</u>	<u>15,187,117</u>	<u>47,967,116</u>

NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds for the current year were:

	Budget	Actual Expenditures	Over Budget
General fund	\$ 3,900,821	3,950,968	(50,147)
Debt service	1,597,433	6,014,690	(4,417,257)
Capital improvements	660,206	3,386,852	(2,726,646)
Trust fund	35,000	40,089	(5,089)
	<u>\$ 2,292,639</u>	<u>9,441,631</u>	<u>(7,148,992)</u>

NOTE 8 - DEFINED-BENEFIT PENSION PLANS

All non-certified permanent employees working over 30 hours per week participate in the Alaska Public Employees Retirement System (PERS).

Alaska Public Employees Retirement System (PERS)

Plan Description: The plan is a joint-contributor agent, multiple-employer PERS plan created by State of Alaska statutes effective January 1, 1961. Any municipality or other political subdivision of the State may request to become an employer in this system. Benefit and contribution provisions are established by State law and may be amended only by State legislature.

Pension Benefits: The Aleutians East Borough participates in the Public Employees Retirement System (PERS), a retirement plan that provides pension, postemployment health care, death and disability benefits to eligible participants. The PERS is administered by the State of Alaska Division of Retirement and Benefits.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 - DEFINED-BENEFIT PENSION PLANS, continued

Employees hired prior to July 1, 2006 and employees hired after July 1, 2006 who have PERS enrollment from prior employment, participate in the PERS Tiers I-III, a defined benefit retirement system. Employees hired after July 1, 2006 who have no prior PERS participating employment participate in PERS Tier IV, a defined contribution plan with a component of defined benefit postemployment health care. Benefits and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year the PERS issues publicly available financial reports that include financial statements and required supplementary information. These reports are available from: Department of Administration, Division of Retirement and Benefits, PO Box 110203, Juneau, AK 99811.

Conversion to Cost Sharing: In 2008 the Alaska Legislature passed Senate Bill (SB) 125 which converted the PERS from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost sharing arrangement the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers. The cost sharing plan requires a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate. This rate will be consistent with the actuarially determined rate. Any such additional contributions are recognized by each employer as an on-behalf payment.

In fiscal year 2008 the State of Alaska also passed SB 123 which requires the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan.

The PERS contribution rates for 2012 were determined as part of the June 30, 2011 actuarial valuations as follows:

Pers Rates - 2012	Contractual Rate	ARM Board Adoption Rate	GASB 45 Rate**
Pension	6.82%	15.10%	Unavailable
Postemployment Health Care	15.18%	18.39%	Unavailable
Total Contribution Rate	22.00%	33.49%	Unavailable

Pers Rates - 2011	Contractual Rate	ARM Board Adoption Rate	GASB 45 Rate**
Pension	6.82%	9.98%	Unavailable
Postemployment Health Care	15.18%	17.98%	Unavailable
Total Contribution Rate	22.00%	27.96%	Unavailable

** this rate uses a 4.5% OPEB discount rate and disregards future Medicare Part D payments.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 - DEFINED-BENEFIT PENSION PLANS, continued

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits are based on the substantive plan (the plan is understood by the employer and the plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between AEB and the plan members at that point. Actuarial calculations reflect a long term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets. The significant actuarial information and assumptions used in the most recent valuation plan follow:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry age actuarial cost Level percentage of pay for pension Level dollar for healthcare
Amortization Method	Level dollar, closed
Equivalent Single Amortization Period	20 years
Asset Valuation Method	8.25% compounded annually, net of expenses
Salary Scale	Merit - 5.5% per year grading down to 1.5% after 5 years; more than 6 years 1% grading down to 0% Productivity - 0.5% per year.
Payroll Growth	4% per year.
Inflation	3.5% annually.
Health Cost Trend	Medical: 8% for FY09 grades down to 5.1% thru FY10. Prescription Drugs: 10.8% for FY09 trending down to 5.1% thru FY10.

Projected benefits for financial reporting purposes do not incorporate any potential effect of legal or contractual funding limitations.

Annual Pension and Post employment Healthcare Cost: AEB is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributes the difference between the rates established by the Alaska Retirement Management Board (ARMB) and the employer mandated rates. The state of Alaska contributed approximately 5.65% and 5.96% of covered payroll to the retirement plan in State FY2011 and State FY2012 respectively.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 8 - DEFINED-BENEFIT PENSION PLANS, continued

In accordance with the provisions of GASB Statement Number 24, AEB has recorded the State contribution in the amount of \$82,252 as a PERS on-behalf payment for the year ended June 30, 2012. However, because AEB is not statutorily obligated for these payments, this amount is excluded from pension and the Obligation Post Employee Benefit as described here.

Period	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Contributions	% of TBC Contributed
7/1/11-6/30/12	\$ 210,568	-	210,568	210,568	100%

Employees first enrolling into PERS after July 1, 2006 participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care. The plan required both employer and employee contributions. Contribution rates are as follows:

Pers Tier IV Contribution Rates:	7/1/11 - 12/31/11	1/1/12 - 6/30/12
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement*	16.29%	16.29%
Retiree Medical Plan	51.00%	51.00%
Death & Disability Benefit	20.00%	20.00%
Total Employer Contribution	22.00%	22.00%

*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent to the employers average annual employee compensation.” For actual remittance this amount was calculated at a flat rate of \$68.39 per full time employee per pay period for full time employees and \$1.14 per hour worked for each part time employee.

Under the newly adopted cost sharing arrangement for the PERS defined benefit plan the state statute employer contribution rate of 22% includes Tier IV employees. In addition to the amounts above AEB contributed \$7,960 on Tier IV employee payroll for the year ended June 30, 2012. This contribution is comprised of \$7,223 for retirement and retiree medical and disability, and \$737 for Health Reimbursement Arrangement on-behalf of its employees.

All amounts paid on behalf of employees are applied to the obligation of the PERS defined benefit plan and is included in the contribution AEB recorded in the defined benefit cost-sharing plan. Employee contribution to the plan totaled \$11,556

NOTE 9 - DEFERRED COMPENSATION PLAN

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 9 - DEFERRED COMPENSATION PLAN, continued

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled \$467,075 at June 30, 2012, and are accounted for in the deferred compensation agency fund.

NOTE 10 - THE ALEUTIANS EAST BOROUGH SCHOOL DISTRICT CONTRIBUTION

Contributions:

Local school contribution	\$ 970,000
FY11 revenue in excess of expenditures	<u>170,736</u>
Total contributions - Cash	<u>\$ 1,140,736</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants

The Aleutians East Borough participates in a number of federal- and State-assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

Contract Dispute

During the year, the Borough was in a dispute with WHPacific. The borough has asserted that the architects on the Aleutians East Regional Airport Terminal neglected their duties due to mold issues that have impacted the occupancy of the building for its intended purposes. Subsequent to year end, this dispute was settled, WHPacific's insurer is to pay AEB in the amount of \$500,000.

AEB has filed a lawsuit against the contractor, Northern Management Services, Inc. for breach of contract regarding the construction of the Aleutians East Regional Airport Terminal. Northern Management Services, Inc. had a counter claim in the approximate amount of \$412,270 for work that was performed on the Aleutians East Regional Airport Terminal but not paid for after the defects in construction became noticed. Subsequent to year end, this dispute was settled, Northern Management Services Inc.'s insurer is to pay AEB in the amount of \$100,000.

AEB has recorded a receivable of \$600,000 for the sum of these two amounts.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Notes to Financial Statements, continued

NOTE 12 – SUBSEQUENT EVENTS

In preparing these financial statements, AEB has evaluated events and transactions for potential recognition or disclosure through March 4, 2013, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Exhibit E-1

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual*

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal government:				
Payment in lieu of taxes	\$ 559,000	454,403	454,403	-
USFWS lands	36,256	36,256	-	(36,256)
<i>Total federal government</i>	<u>595,256</u>	<u>490,659</u>	<u>454,403</u>	<u>(36,256)</u>
State of Alaska:				
Raw fish tax	1,581,128	1,664,919	1,664,919	-
State bond rebate	1,045,464	909,098	909,098	-
State fish landing tax	45,115	53,571	53,571	-
State extraterritorial fish tax	108,350	243,084	243,084	-
State revenue sharing	515,752	542,712	542,712	-
State PERS on-behalf funding	-	-	82,252	82,252
<i>Total State of Alaska</i>	<u>3,295,809</u>	<u>3,413,384</u>	<u>3,495,636</u>	<u>82,252</u>
Borough raw fish tax	2,635,000	4,789,215	4,789,215	-
SW Government LLC	-	30,000	-	(30,000)
Investment income	35,000	35,000	28,779	(6,221)
AEBSD refund	-	170,736	170,736	-
Other	7,000	74,885	674,885	600,000
<i>Total revenues</i>	<u>6,568,065</u>	<u>9,003,879</u>	<u>9,613,654</u>	<u>609,775</u>
Expenditures:				
Mayor's office:				
Salaries	68,985	80,839	80,839	-
Fringe benefits	27,810	26,689	35,817	(9,128)
Travel and per diem	36,000	24,664	24,664	-
Telephone	2,400	1,126	1,126	-
Supplies	1,000	2,263	2,263	-
Legal	111,600	115,285	115,285	-
<i>Total Mayor's office</i>	<u>247,795</u>	<u>250,866</u>	<u>259,994</u>	<u>(9,128)</u>
Assembly:				
Salaries	25,000	20,800	20,800	-
Fringe benefits	56,000	64,094	22,930	41,164
Travel and per diem	40,000	40,826	40,826	-

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

General Fund

Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Assembly, continued:				
Telephone	\$ 4,500	3,126	3,126	-
Supplies	500	507	507	-
Retreat	10,000	-	-	-
Total assembly	136,000	129,353	88,189	47,811
Clerk and planning management:				
Salaries	81,160	82,750	82,750	-
Fringe benefits	33,524	29,463	38,807	(9,344)
Travel and per diem	12,500	8,757	8,757	-
Telephone	7,500	6,277	6,277	-
Postage	500	1,168	1,168	-
Supplies	9,000	4,282	4,282	-
Utilities	12,000	27,416	27,416	-
Dues and fees	5,000	2,542	2,542	-
Elections	8,300	9,949	9,949	-
Other	7,000	-	-	-
Total clerk and planning management	176,484	172,604	181,948	(9,344)
Administration:				
Salaries	166,116	158,344	158,344	-
Fringe benefits	64,234	59,271	76,253	(16,982)
Contract labor	25,000	27,714	27,714	-
Travel and per diem	15,000	28,931	28,931	-
Telephone	6,000	6,943	6,943	-
Postage	2,500	1,531	1,531	-
Supplies	18,120	15,139	15,489	(350)
Equipment	4,500	1,253	-	1,253
Rent	36,980	33,079	33,079	-
Dues and fees	1,500	1,245	1,245	-
Total administration	339,950	333,450	349,529	(16,079)
Finance:				
Salaries	116,802	159,706	159,706	-
Fringe benefits	51,161	51,339	69,372	(18,033)
Travel and per diem	4,000	5,684	5,684	-

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit E-1, continued

General Fund

*Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Finance, continued:				
Telephone	\$ 5,000	4,752	4,752	248
Postage	2,500	1,614	1,614	886
Supplies	10,500	11,180	11,180	(680)
Repairs	-	5,043	5,043	(5,043)
Utilities	4,000	5,419	5,419	(1,419)
Audit	45,000	45,561	45,561	(561)
<i>Total finance</i>	<u>238,963</u>	<u>290,298</u>	<u>308,331</u>	<u>(18,033)</u>
Resource department:				
Salaries	119,049	85,109	85,109	-
Fringe benefits	45,040	29,848	39,458	(9,610)
Contract labor	75,000	75,000	75,000	-
Travel and per diem	35,000	35,919	35,919	-
Meetings	40,000	15,174	15,174	-
Telephone	5,200	2,338	2,338	-
Supplies	3,000	2,398	2,398	-
Rent	-	7,341	7,341	-
Contributions	-	-	5,000	(5,000)
SEMD Sampling	250,000	249,170	249,170	-
Public information officer	171,645	155,666	155,666	-
<i>Total resource department</i>	<u>743,934</u>	<u>657,963</u>	<u>672,573</u>	<u>(14,610)</u>
Public works:				
Salaries	72,997	75,797	75,797	-
Fringe benefits	29,602	28,611	37,170	(8,559)
Travel and per diem	12,000	6,281	6,511	(230)
Telephone	1,500	1,207	1,207	-
Supplies	6,000	2,797	2,797	-
Equipment	1,500	-	-	-
Utilities	2,500	1,549	1,549	-
<i>Total public works</i>	<u>126,099</u>	<u>116,242</u>	<u>125,031</u>	<u>(8,789)</u>
Development director:				
Salaries	61,590	65,076	65,076	(3,486)
Fringe benefits	27,256	25,723	33,072	(5,816)
Contract labor	6,000	-	-	6,000

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

General Fund

Statement of Revenues, Expenses, and Changes
in Fund Balance - Budget and Actual, continued

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Development director, continued:				
Travel and per diem	\$ 15,000	5,934	5,934	-
Telephone	4,000	751	751	-
Postage	250	-	-	-
Supplies	4,500	3,817	3,817	-
Rent	7,000	7,152	7,152	-
<i>Total special assistant</i>	<u>125,596</u>	<u>108,453</u>	<u>115,802</u>	<u>(7,349)</u>
Other:				
Local school contribution	800,000	970,000	970,000	-
Student scholarship	20,000	13,774	13,774	-
Student travel	5,000	5,000	5,000	-
Utilities	11,410	22,803	22,803	-
Equipment	8,200	22,816	22,816	-
Legal	75,000	303,934	303,934	-
Insurance	180,000	140,567	140,567	-
Bank fees	2,000	398	397	1
Contribution to Eastern Aleutians Tribes	150,000	150,000	150,000	-
Revenue sharing - Nelson Lagoon	32,000	32,000	32,000	-
Aleutia Crab	58,522	66,367	66,367	-
King Cove Access Project	23,800	9,671	17,648	(7,977)
Donations	23,500	22,300	22,300	-
Web service	11,000	23,547	23,547	-
Miscellaneous expense	1,000	58,415	58,418	(3)
<i>Total other</i>	<u>1,401,432</u>	<u>1,841,592</u>	<u>1,849,571</u>	<u>(7,979)</u>
<i>Total expenditures</i>	<u>3,536,253</u>	<u>3,900,821</u>	<u>3,950,968</u>	<u>(43,500)</u>
Excess of revenues over expenditures	<u>3,031,812</u>	<u>5,103,058</u>	<u>5,662,686</u>	<u>566,275</u>
Other financing uses - Operating transfers to other funds:				
Special revenue funds - Maintenance reserve	(100,000)	(100,000)	(100,000)	-
Capital improvements fund	(225,000)	(225,000)	(225,000)	-
Trust Fund	(350,000)	(350,000)	(350,000)	-
Debt service fund	(2,564,690)	(2,564,690)	(2,564,690)	-
<i>Net other financing uses</i>	<u>(3,239,690)</u>	<u>(3,239,690)</u>	<u>(3,239,690)</u>	<u>-</u>
Excess of revenues over expenditures and other financing uses	<u>\$ (207,878)</u>	<u>1,863,368</u>	<u>2,422,996</u>	<u>566,275</u>
Beginning fund balance			<u>11,104,560</u>	
Ending fund balance			<u>\$ 13,527,556</u>	

THE ALEUTIANS EAST BOROUGH

Exhibit F-1

King Cove, Alaska

Capital Improvements

*Statement of Revenues, Expenses,
and Changes in Fund Balance*

Year Ended June 30, 2012

Revenues:

Federal revenue	\$ 1,179,045
State of Alaska	31,554
Investment income	857
Other	<u>182,400</u>
<i>Total revenues</i>	<u>1,393,856</u>

Expenditures:

Contract labor	116,313
Travel and per diem	3,976
Supplies	7,271
Contributions to other governments	14,552
Capital projects	2,889,440
Other	<u>355,300</u>
<i>Total capital outlays</i>	<u>3,386,852</u>

Excess of expenditures over revenues (1,992,996)

Other financing sources:

Operating transfer	<u>225,000</u>
<i>Total other financing sources</i>	<u>225,000</u>

Excess of revenues over expenditures
and other financing uses (1,767,996)

Beginning fund balance 1,995,618

Ending fund balance \$ 227,622

THE ALEUTIANS EAST BOROUGH

Exhibit G-1

King Cove, Alaska

*Trust Fund**Statement of Revenues, Expenses,
and Changes in Fund Balance**Year Ended June 30, 2012*

Revenues:	
Investment income	\$ 920,951
<i>Total revenues</i>	<u>920,951</u>
Expenditures - Management fee	<u>40,089</u>
<i>Total expenditures</i>	<u>40,089</u>
Excess of expenditures over revenues	880,862
Other financing source - Operating transfer from general fund	<u>350,000</u>
Excess of revenues and other financing source over expenditures	1,230,862
Beginning fund balance	<u>27,790,630</u>
Ending fund balance	<u>\$ 29,021,492</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Debt Service**Statement of Revenues, Expenses,
and Changes in Fund Balance**Year Ended June 30, 2012*

Revenues - Investment income	\$ -
Expenditures:	
Principle	4,635,000
Interest	<u>1,379,690</u>
<i>Total expenditures</i>	<u>6,014,690</u>
Excess of expenditures over revenues	(6,014,690)
Other financing sources	
Issuance of bonds	3,450,000
Operating transfer from general fund	<u>2,564,690</u>
<i>Total other financing sources</i>	<u>6,014,690</u>
Excess of revenues and other financing source over expenditures	-
Beginning fund balance	<u>75,123</u>
Ending fund balance	<u><u>\$ 75,123</u></u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit I-1

Nonmajor Funds

Combining Balance Sheet

June 30, 2012

	Maintenance Reserve	Bond Construction	King Cove Access Project	Total
Assets				
Equity in central treasury	\$ -	9,543,951	-	9,543,951
Receivables, school	174,080	-	-	174,080
Receivables, other	64,306	-	-	64,306
Accrued interest	-	26,829	-	26,829
Due from other funds	253,225	-	280,770	533,995
	<u>\$ 491,611</u>	<u>9,570,780</u>	<u>280,770</u>	<u>10,343,161</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 29,061	586,598	-	615,659
Due to other funds	-	547,194	-	547,194
<i>Total liabilities</i>	<u>29,061</u>	<u>1,133,792</u>	<u>-</u>	<u>1,162,853</u>
Fund balances:				
Committed- Construction	-	8,436,988	280,770	8,717,758
Assigned - Designated for major maintenance	462,550	-	-	462,550
<i>Total fund balances</i>	<u>462,550</u>	<u>8,436,988</u>	<u>280,770</u>	<u>9,180,308</u>
	<u>\$ 491,611</u>	<u>9,570,780</u>	<u>280,770</u>	<u>10,343,161</u>

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Nonmajor Funds

Statement of Revenues, Expenditures
and Changes in Fund Balance

Year Ended June 30, 2012

	Maintenance Reserve	Bond Construction	King Cove Access Project	Total
Revenues:				
Other	\$ 70,312	71,484	-	141,796
Investment income	-	96,251	-	96,251
<i>Total revenues</i>	<u>70,312</u>	<u>167,735</u>	<u>-</u>	<u>238,047</u>
Expenditures - Capital outlay:				
Salaries and benefits	71,565	-	-	71,565
Contract labor	34,073	-	-	34,073
Supplies	146	-	-	146
Capital projects	930	664,035	-	664,965
<i>Total expenditures - Capital outlay</i>	<u>106,714</u>	<u>664,035</u>	<u>-</u>	<u>770,749</u>
Excess of revenues (under) over expenditures	(36,402)	(496,300)	-	(532,702)
Other financing sources - Operating transfers from other funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Excess of revenues and other financing sources over (under) expenditures	63,598	(496,300)	-	(432,702)
Beginning fund balances	<u>398,952</u>	<u>8,933,288</u>	<u>280,770</u>	<u>9,613,010</u>
Ending fund balances	<u>\$ 462,550</u>	<u>8,436,988</u>	<u>280,770</u>	<u>9,180,308</u>

FEDERAL COMPLIANCE REPORT

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Schedule of Expenditures of Federal Financial Awards

Year Ended June 30, 2012

Federal Grant Title	Award Identification	CFDA Number	Total Grant Award	Eligible Expenditures
Department of Housing and Urban Development				
False Pass Harbor Utility Project*	10-CDBG-002	14.228	\$ 400,000	400,000
U.S. Department of Interior:				
Payment in lieu of taxes*	Unknown	15.226	454,403	454,403
Educational Pamphlet	12-CIAP-001	15.426	16,000	16,000
Cold Bay Boat Ramp Rehab	10-CIAP-003	15.426	90,000	79,103
US Fish and Wildlife	70181AJ569	15.642	4,700	902
<i>Total Department of the Interior</i>			<u>565,103</u>	<u>550,408</u>
Denali Commission:				
False Pass Harbor Utility Project*	01400-00	90.100	<u>996,461</u>	<u>683,040</u>
Total federal financial assistance			<u>\$ 1,961,564</u>	<u>1,633,448</u>

*Indicates a major program for compliance audit purposes.

This schedule was prepared on the accrual basis of accounting.



NEWHOUSE & VOGLER
Certified Public Accountants

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

We have audited the financial statements of governmental activities, business-type activities, each major fund, and aggregate remaining fund information of The Aleutians East Borough as of and for the year ended June 30, 2012, which collectively comprise The Aleutians East Borough's basic financial statements and have issued our report thereon dated March 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Aleutians East Borough is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Aleutians East Borough's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Aleutians East Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Aleutians East Borough's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

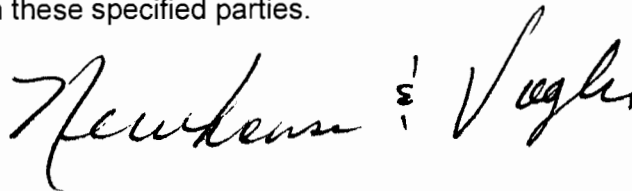
Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Aleutians East Borough's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of the Aleutians East Borough in a separate letter dated March 4, 2013.

This report is intended solely for the information and use of the Borough, management, and federal awarding agencies and pass-through entities, is not intended to be, and should not be used by anyone other than these specified parties.

March 4, 2013

A handwritten signature in black ink, appearing to read "Heidi S. Vogel". The signature is written in a cursive style with a large, stylized "V" at the end.



NEWHOUSE & VOGLER
Certified Public Accountants

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Independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133

Honorable Mayor and Borough Assembly
The Aleutians East Borough
Anchorage, Alaska

Ladies and Gentlemen:

Compliance

We have audited The Aleutians East Borough's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of The Aleutians East Borough's major federal programs for the year ended June 30, 2012. The Aleutians East Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Aleutians East Borough's management. Our responsibility is to express an opinion on The Aleutians East Borough's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Aleutians East Borough's compliance with those requirements.

In our opinion The Aleutians East Borough complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

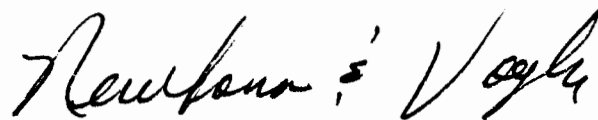
Internal Control over Compliance

Management of The Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Aleutians East Borough's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Aleutians East Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Newborn & Vogel". The signature is written in a cursive, flowing style.

March 4, 2013

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Summary of Auditor's Results and Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

FINANCIAL STATEMENTS

Type of auditor report issued:		Unqualified
Material weakness in internal control over financial reporting identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Noncompliance related to the financial statements identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

FEDERAL AWARDS

Type of auditor report issued on compliance over major programs:		Unqualified
Material weakness in internal control over major programs identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster of Programs</u>
14.228	Community Development Block Grant
15.226	DOI- PILT
90.100	Denali Commission

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to federal awards for the year ended June 30, 2012.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Summary of Prior Audit Findings

Year Ended June 30, 2012

There are no prior findings or questioned costs.

STATE COMPLIANCE REPORTS

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Schedule of State Financial Assistance

Year Ended June 30, 2012

Grant Title	Award Identification	Period	Total Grant Award	State Share of Expenditures
Department of Community and Regional Affairs:				
Fish landing tax supplement*	Unknown	7/01/11 - 6/30/12	\$ 243,084	243,084
Fish landing tax	Unknown	7/01/11 - 6/30/12	53,571	53,571
<i>Total Department of Community and Regional Affairs</i>			<u>296,655</u>	<u>296,655</u>
Department of Commerce, Community and Economic Development:				
Revenue sharing*	Unknown	7/01/11 - 6/30/12	542,712	542,712
Nelson Lagoon Hazard Impact	810758	7/01/11 - 6/30/12	50,000	31,554
<i>Total Department of Commerce, Community and Economic Development</i>			<u>592,712</u>	<u>574,266</u>
Department of Revenue - Raw fish tax*	Unknown	7/01/11 - 6/30/12	<u>1,664,919</u>	<u>1,664,919</u>
Department of Education - Debt retirement*	Unknown	7/01/11 - 6/30/12	<u>909,098</u>	<u>909,098</u>
Department of Administration: Pers on-behalf*	Unknown	7/01/11 - 6/30/12	<u>82,252</u>	<u>82,252</u>
Total State financial assistance			<u>\$ 3,545,636</u>	<u>3,527,190</u>

*Indicates a major program.

This schedule was prepared on the accrual basis of accounting.



NEWHOUSE & VOGLER
Certified Public Accountants

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Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Borough Assembly
The Aleutians East Borough
King Cove, Alaska

Ladies and Gentlemen:

Compliance

We have audited The Aleutians East Borough's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of The Aleutians East Borough's major state programs for the year ended June 30, 2012. The Aleutians East Borough's major state programs are identified in the accompanying schedule of state financial assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of The Aleutians East Borough's management. Our responsibility is to express an opinion on The Aleutians East Borough's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, The Aleutians East Borough complied, in all material respects, with the compliance requirement referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012.

Honorable Mayor and Borough Assembly
The Aleutians East Borough

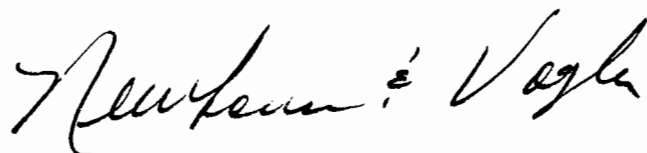
Internal Control over Compliance

Management of The Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered The Aleutians East Borough's internal control over compliance with requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for the State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Aleutians East Borough's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Newton E. Vogel".

March 4, 2013

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Summary of Auditor's Results and Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

FINANCIAL STATEMENTS

Type of auditor report issued:		Unqualified
Internal Control over financial reporting:		
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements?	<u> </u> Yes	<u> X </u> No

STATE FINANCIAL ASSISTANCE

Type of auditor report issued on compliance for major programs:		Unqualified
Internal control over major programs:		
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No

Dollar threshold used to distinguish a state major program:	\$ 75,000
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FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR STATE AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to state awards for the year ended June 30, 2012.

THE ALEUTIANS EAST BOROUGH
King Cove, Alaska

Summary of Prior Audit Findings

Year Ended June 30, 2012

There were no prior audit findings.